Agenda Item No:	10	
Committee:	Council	
Date:	22 February 2018	
Report Title:	General Fund Budget 2018/19 and Capital Programme 2018-21	

Cover sheet:

1 Purpose / Summary

To consider the Cabinet recommendations in relation to the General Fund Revenue Budget 2018/19 and Capital Programme 2018-2021.

2 Key issues

- Revised Estimates for 2017/18 imply an under-spend in the region of £250,000;
- Details of the Medium Term Financial Plan (MTFP) and Capital Programme;
- The required savings for 2017/18 of £601k have been identified and implemented;
- The Treasury Management and Investment Strategy 2018/19 is presented for approval;
- Proposed 2.96% increase in Council Tax for 2018/19;
- The forecast capital programme over the medium term to 2020/21 is supported both by borrowing and significant future capital receipts from asset sales;
- The liability relating to the Pilots' National Pension Fund will crystalise in 2017/18 and will be funded by borrowing or use of reserves;

3 Recommendations

- **It is recommended by Cabinet that:**
  - (i) the General Fund revenue budget for 2018/19 as set out in paragraphs 9 and Appendix A be approved;
  - (ii) the Capital Programme and funding statement as set out in Appendix D be approved;
  - (iii) the Medium Term Financial Plan as outlined in this report and Appendix B be adopted;
  - (iv) the Treasury Management, Minimum Revenue Provision, Investment Strategy, Prudential and Treasury Indicators for 2018/19 as set out in paragraph 14 and Appendix E be approved;
  - (v) the expenses detailed in paragraph 11 be treated as general expenses for 2018/19;
  - (vi) the Port Health levy for 2018/19 be set as shown in paragraph 12;
  - (vii) the Band D Council Tax level for Fenland District Council Services for 2018/19 be set at £262.98, an increase of £7.56 (2.96%) on the current year.

Wards Affected	All
Portfolio Holder(s)	Leader of the Council Portfolio Holder, Finance
Report Originator(s)	Brendan Arnold, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Paul Medd, Chief Executive Brendan Arnold, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	Finance settlement – Ministry for Housing, Communities and Local Government (MHCLG). Medium Term Financial Plan working papers.

This report contains the following Appendices:

Appendices

A.	(i) General Fund Revenue Estimates - Summary
	(ii) General Fund Revenue Estimates – Individual Services
B.	(i) Medium Term Financial Plan (MTFP)
	(ii) MTFP – Movements since December 2017 update
C.	Assumptions built into Budget and Medium Term Plan
D.	Capital Programme
E.	Treasury Management Strategy, Minimum Revenue Provision Strategy, Investment Strategy and Prudential Indicators
F.	Parish Precepts
G.	Earmarked Reserves

Report:

1 INTRODUCTION

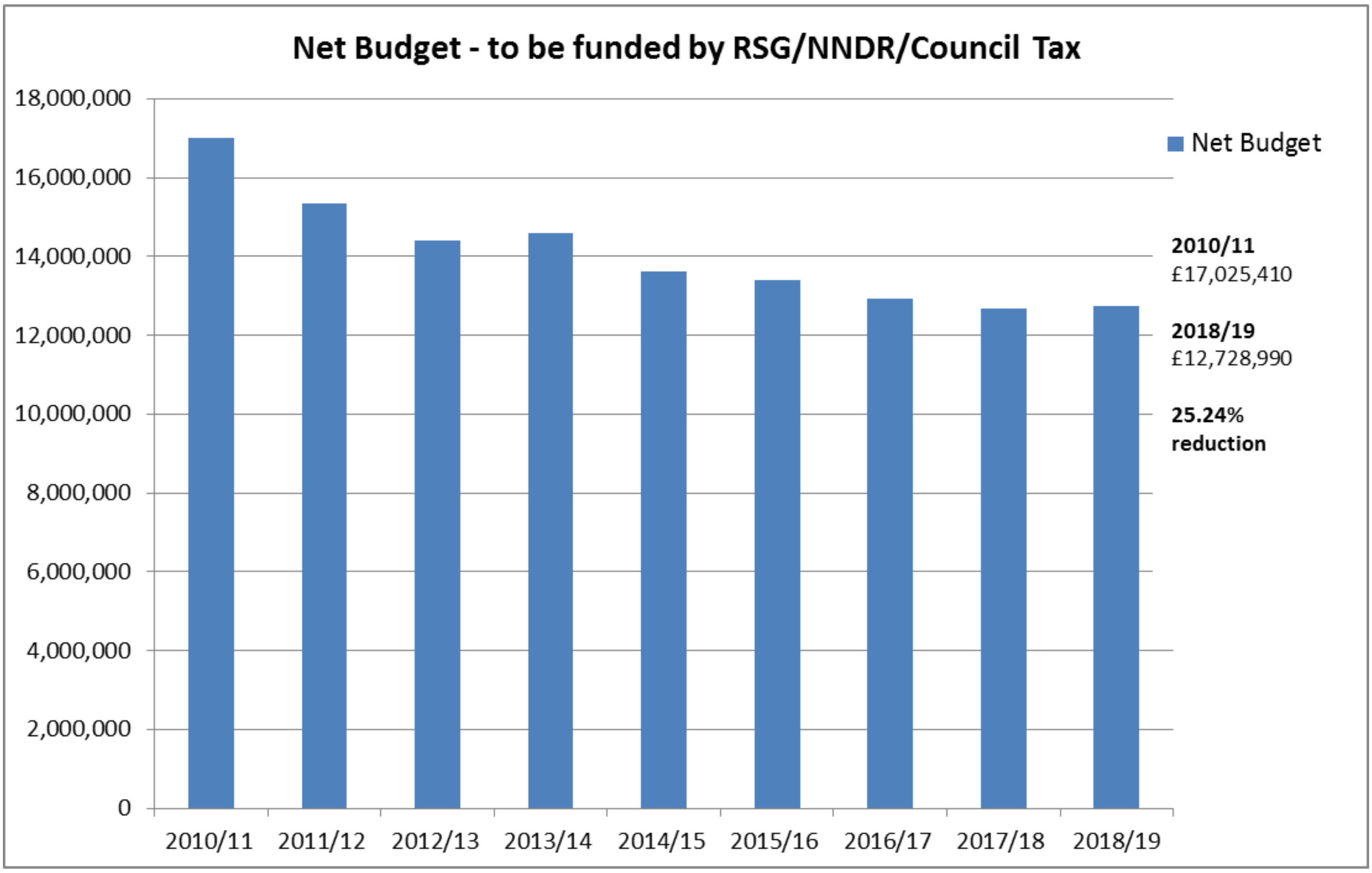
1.1 This report is the culmination of the service and financial planning cycle for 2018/19. It brings together all General Fund revenue estimates, all capital estimates, and recommends a level of Council Tax for 2018/19. The budget for 2018/19 and financial projections are based on the following Corporate Priorities as set out in the Business Plan, with an overarching focus on improving the Quality of Life for the residents of Fenland:

Quality Organisation

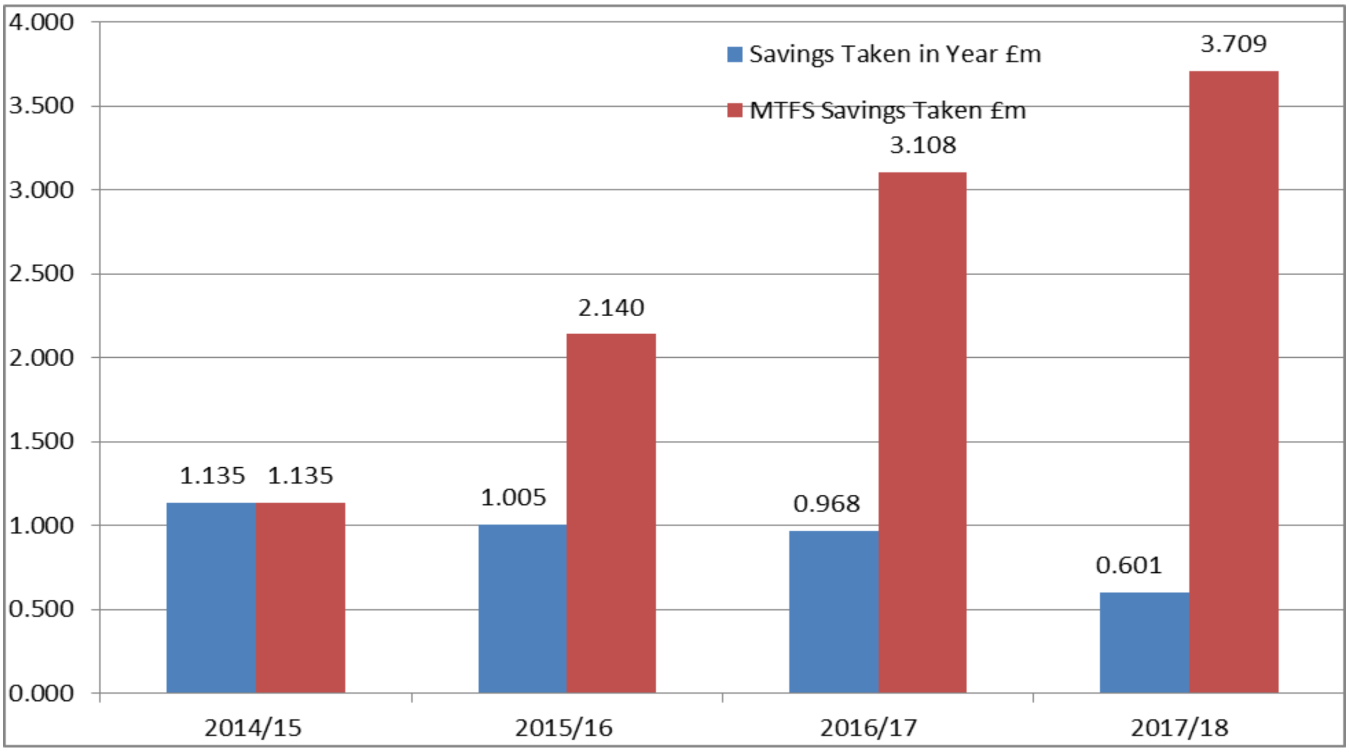
- **Communities**
- **Environment**
- **Economy**

1.2 These priorities have informed the development of the Council's Business Plan and have led to the budget proposals set out in this report. Full details of the Council's plans to improve the Social, Economic and Environmental well-being of the District are set out in the Business Plan 2018/19 earlier in the agenda for this meeting.

1.3 Local Government has been at the forefront of the austerity measures introduced by the government following the General Election in 2010, to reduce the national deficit. This Council has seen significant reductions in its Net Budget since 2010 and by the end of 2018/19 this will have reduced by 25.24%. This is exemplified in the graph below:



1.4 The following graph illustrates how successful the Council has been in delivering savings over the last 5 years, which has enabled the Council to achieve a balanced budget.



During these years, Members have been very clear, that where possible, front line services should be protected. The Council's strategy of identifying savings 12 months in advance of the financial year has led to the successful delivery of the required savings targets and means the Council are in a good position to meet the challenges of 2018/19 and beyond. These savings have been achieved through a number of ways, such as Management and Service reviews, shared services, procurement and income generation.

2 REVISED ESTIMATE 2017/18

2.1 As part of the budget setting process for 2017/18, approved by Council on 23 February 2017, £0.601m of savings were required in order to achieve a balanced budget.

2.2 As reported during the course of this year, the required savings for 2017/18 have been identified and implemented. In addition, all the required savings for 2018/19 have also been identified.

2.3 Organisational efficiency changes, Shared Service arrangements, additional income (higher retained business rates and higher surplus on Council Tax collection fund) together with the successful implementation of the Garden Waste subscription service and other Council CSR projects, have enabled the original savings target to be met for this year with significant contributions towards the savings target for 2018/19.

2.4 Given the size of the required savings, this is a considerable achievement and demonstrates the focus from Cabinet and Officers in delivering a balanced budget. The savings identified to date have not significantly affected front-line services as the Council is determined to maintain the quality of these services during these difficult and challenging times.

2.5 The interim budget report to Cabinet in December 2017 forecast a break-even position by the end of this year. The latest revised estimates for 2017/18 are detailed at Appendix A and show the likelihood of an under-spend in the region of £250k by the end of this financial year. This is due to reductions in estimated employee costs (-£105k), higher forecast income from the VAT sharing arrangement (-£50k), higher than expected Government S31 Grant for reimbursement of the extended relief schemes given to small businesses (-£133k) and miscellaneous service variations (+£38k).

2.6 At the present time, the Corporate Management Team, Senior Managers and the Accountancy Team are managing and monitoring the position carefully and will continue to review spending levels to ensure where possible, this position is maintained at the year end.

Pilots' National Pension Fund (PNPF)

2.7 Members will be aware of the Council's current liability to The Pilots' National Pension Fund. The Council has now been notified formally by the PNPF that the actual liability is £1,949,969 (previous estimate was around £2m). Although this amount has now been paid to the PNPF, the accounting treatment of the payment is still to be resolved. This will be funded by borrowing or use of reserves.

3 CONSULTATION

3.1 The interim budget proposals for 2018/19 were approved for consultation by Cabinet on 14 December 2017. These proposals were discussed and considered at the meeting of the Overview and Scrutiny Panel on 15 January 2018. The Panel confirmed their overall support for the budget strategy.

4 AUTUMN BUDGET STATEMENT 2017

4.1 The Autumn Budget Statement on 22 November 2017 contained little which has a direct impact on this Council over the medium term. Councils are to be given the power to charge a 100% council tax premium on long-term empty properties (currently 50% premium which this Council applies), effective from April 2019 and which if applied would raise around £13k per annum. In addition, business rates are to rise by the Consumer Prices Index (CPI) measure of inflation, not the higher Retail Prices Index (RPI). This will reduce the amount of business rates income retained by the Council, although the government has stated that local authorities would be fully compensated for the business rate changes announced.

5 FENLAND COMPREHENSIVE SPENDING REVIEW.

5.1 The estimated savings generated from the CSR proposals agreed previously amount to £1.7m with £1m achieved by the end of 2017/18. During this year, Members have received detailed business cases on several proposals which are now progressing. These include the following:

- Community House external funding
- Ceasing Youth District Council
- Community Grants review
- Garden Waste charging
- Leisure Centre management options
- Contact Centre review
- Wireless CCTV
- New Horizons Bus

- Local Council Tax Support Grant to Parish Councils withdrawn

5.2 The savings generated from these and other CSR proposals are included within the medium term projections detailed at Appendix B and have significantly contributed to the required savings target over the medium term.

6 LOCAL GOVERNMENT FINANCE SETTLEMENT

6.1 The Final Finance Settlement for 2018/19 was announced on 6 February 2018 and there were no significant changes to the Provisional Settlement announced on 19 December 2017. The Settlement sets out the Settlement Funding Assessment (Core Funding) for 2018/19 and indicative allocations for 2019/20. For 2020/21, an inflationary increase has been assumed in line with the Budget Statement announcement on overall government departmental spending totals.

Table 1 – Final Settlement Funding Assessment (Core Funding)

	Actual 2017/18 £000	Actual 2018/19 £000	2018/19 % Reduction	Indicative 2019/20 £000	2019/20 % Reduction
Revenue Support Grant (RSG)	925	444		0	
Business Rates Baseline Funding	3,457	3,561		3,640	
Core Funding	**4,382**	**4,005**	**-8.6%**	**3,640**	**-9.1%**

6.2 The multi-year settlement announced in Autumn 2015 (covering the period 2016/17 – 2019/20), will result in RSG disappearing by 2019/20 with the Business Rates Baseline Funding increasing by CPI inflation. The medium term projections detailed in Appendix B exemplify this position by reducing the overall Settlement Funding Assessment by 8.6% in 2018/19, by a further 9.1% in 2019/20 as shown in Table 1 above, with an inflationary increase of 2% in 2020/21 onwards.

Fair Funding Review

6.3 Alongside the provisional finance settlement, the Government confirmed that it is looking to implement the Fair Funding Review in April 2020 and published a consultation document on ‘a review of relative needs and resources’. This consultation focuses specifically on potential approaches that have been identified to measure the relative needs of local authorities. It does not cover the relative resources adjustment, transition or other technical matters but these will be the subject of a later series of discussion papers.

7 NEW HOMES BONUS

7.1 In 2017/18, reforms to the allocation methodology of the New Homes Bonus (NHB) were made which significantly reduced the total amount available for distribution which consequently reduced this Council’s allocation.

7.2 The key focus of the reforms was to reduce the payments from 6 years to 5 years in 2017/18 and to 4 years from 2018/19. In addition, from 2017/18, a national baseline for housing growth of 0.4% was introduced, below which NHB will not be paid, reflecting a percentage of housing that would have been built anyway.

7.3 No further changes to the allocation methodology in 2018/19 were announced in the provisional settlement although the government retains the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth. The government also consulted on further changes, including the possibility of reducing NHB for housing granted on appeal but have decided not to go ahead with this particular change.

7.4 Actual NHB received in 2017/18 was £1.649m and the actual allocation for 2018/19 announced in the final settlement is £1.426m. This is the same as previously included in the 2018/19 estimates. This reduces to an estimated £1.2m by 2020/21 as the full impact of the changes detailed in 7.2 above come into effect.

8 BUSINESS RATES

8.1 Members will be aware that the Business Rates Retention system was introduced in April 2013. Under this system, authorities would benefit if their actual Business Rates income collected in a year was higher than the baseline funding determined by government.

8.2 There has been real business rates growth in Fenland over the last three years, however how this impacts on the resources available to this Council is complex, due to the rules surrounding the Business Rates Retention system.

8.3 In the recent past the Council joined a 3 year pilot scheme agreed between HM Treasury and Cambridgeshire and Peterborough Councils, whereby the authorities keep 100% of business rates generated above forecast levels (currently shared 50/50 with Central Government). This trial began in 2015/16 and the Council received an additional £319k of business rates in that year and a further £584k in 2016/17 as a result of the pilot scheme. For the final year of the trial period - and as a result of the revaluation exercise in April 2017 - only a nominal amount of £17k is expected in 2017/18, the last year of the pilot scheme, and nothing thereafter.

8.4 The Council also joined with the County Council, all other District Councils within Cambridgeshire, Peterborough City Council and the Combined Authority to submit a bid for a pilot scheme in 2018/19 for the 100% Business Rates Retention scheme. Unfortunately, as the initiative was substantially over-subscribed nationally, the Combined Authority bid was unsuccessful. There will however be an opportunity to bid again for the next round of pilots in 2019/20.

Future Changes to the Business Rates Retention System - 2020/21 onwards

8.5 The Government announced as part of the provisional settlement, its intention to introduce a 75% Business Rates Retention Scheme from April 2020. The Government has committed to continuing to work with local government to improve the way the finance system works, such as tackling the impact of business rates appeals on local authorities.

8.6 The content and character of any new system and its effect on Fenland District Council are unknown at this stage and therefore no adjustments have been made to the business rates funding within the MTFP. Nationally, the implementation of this scheme will be fiscally neutral.

8.7 The future changes to the Business Rates Retention system and the outcome of the Fair Funding Review are very significant risk areas for this Council, for district councils in particular and the local authority sector in general, over the medium term.

9 BUDGET 2018/19 AND MEDIUM TERM PLAN

9.1 The Council's Medium Term Financial Plan (MTFP) ensures that the commitments made in the Business Plan are funded not only in the year for which the formal approval of the budget is required (2018/19) but for future years as well, within a reasonable level of tolerance.

9.2 The Council's MTFP is shown at Appendix B and summarised in Table 2 below. The table also exemplifies the impact of an indicative 2.96% Council Tax increase in 2018/19 and 1.98% per annum from 2019/20 onwards.

Table 2 - MTFP – 2.96% CT increase in 2018/19 and 1.98% increase in 2019/20 onwards

	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Expenditure					
Net Service Expenditure	13,664	14,166	14,463	14,858	15,268
Corporate Items	-935	-1,225	-870	-930	-840
Net Budget Requirement	**12,729**	**12,941**	**13,593**	**13,928**	**14,428**
Funding					
Revenue Support Grant	-444	0	0	0	0
Retained Business Rates	-4,723	-4,776	-4,966	-5,065	-5,168
Business Rates Collection Fund Deficit	169	0	0	0	0
Council Tax Collection Fund Surplus	-110	-90	-90	-90	-90
Council Tax *(increases of 2.96% in 18/19*	-7,621	-7,852	-8,090	-8,333	-8,584
and 1.98% p.a 19/20 onwards)					
Total Funding	**-12,729**	**-12,718**	**-13,146**	**-13,488**	**-13,842**
Surplus(-)/Shortfall(+)	**0**	**+223**	**+447**	**+440**	**+586**

9.3 Government grant figures for 2018/19 have been confirmed as part of the final finance settlement. Indicative figures for 2019/20 were announced at the same time and are consistent with the multi-year settlement figures previously published. The projections for 2020/21 onwards are based on the best information available and are consistent with the announcements on business rates in the Autumn Budget Statement 2017 and the provisional finance settlement. However, given the lack of clarity in government policy at the current time, there remains a degree of uncertainty in these projections.

9.4 This will mean that in 2019/20, the Council will no longer receive any Revenue Support Grant. In order for Councils to continue to contribute to the previous government's financial Austerity measures, it has been proposed that an additional tariff adjustment is applied to councils who no longer receive Revenue Support Grant. This could be around £94,000 for Fenland in 2019/20 and is included in the overall business rates income for that year. However, this could change in future years pending the detailed implementation of the 75% Business Rates Retention scheme in 2020/21.

Council Tax

9.5 As part of the 2018/19 Provisional Local Government Finance Settlement announcement in December 2017, the government has again proposed that local authorities will be required to seek the approval of their local electorate in a referendum if they set council tax increases in 2018/19 that exceed the government set limit. This limit has been set at 3% for 2018/19 for District Councils (or greater than £5, whichever is higher) but is expected to revert to 2% in the years thereafter.

9.6 The referendum limit for 2018/19 is 1% higher than previously allowed for in the MTFP. For the purposes of this report, the figures in Table 2 above and Appendices A and B exemplify the impact of this higher limit. This is to ensure that there is clarity and transparency regarding the impact of this important change in Government's approach. Members will be aware that an increase of 3% would be consistent with current levels of inflation in the UK economy.

9.7 An additional 1% increase in Council Tax in 2018/19 would generate in the region of £75,000 of income per annum. Even with this additional resource included, the estimates for future years show a significant and increasing shortfall (see Table 2 in paragraph 9.2 above and Appendix B).

Budget 2018/19 and MTFP

9.8 The level of net expenditure for 2018/19 is currently estimated to be £12.729 million after all identified savings and contingencies are included. This includes the assumptions detailed at Appendix C.

9.9 The forecasts include all proposed savings from the Council's CSR process over the next three years together with assumptions regarding additional receipts from Council Tax and Business Rates.

9.10 Contingencies have been included to allow for the impact on future Employer Pension Costs resulting from the externalisation of the Leisure Centres Management (£75k p.a. from 2020/21), for borrowing costs associated with the potential capitalisation of the PNPF liability (£100k p.a. from 2018/19) and for additional resources for the Transport Development Team (£15k p.a. from 2018/19) and the Economic Development Service (£43k p.a. from 2018/19).

9.11 Taking into account the proposals in the above tables, the estimated level of expenditure in 2018/19 is detailed in Appendix A. The level of forecast resources available to the Council and the estimated levels of expenditure over the medium term are set out in detail in Appendix B. These show a funding gap of £586k by the end of 2022/23.

9.12 There will, therefore be a requirement to achieve further savings over the medium term through an approach of similar character and reach to the existing CSR agreed by the Council in January 2016 and now largely delivered.

Risk Assessment

9.13 There is an element of risk inherent in any process that looks into the future to make forecasts, particularly in the current economic climate. The Council has a strong track record in good financial management as recognised in the recent Annual Audit Letter. This risk is further minimised by adopting the following methodology when preparing the estimates:

- Service managers and the Accountancy Team working together to define likely service income/expenditure patterns matched with service delivery plans
- Maintaining "earmarked" reserves for potentially unbudgeted expenditure,

- Adopting clear guidelines and control systems (revenue monitoring procedures, Financial Regulations etc.) to alert service managers, and members should variances become significant,
- Using professional and expert advice and economic forecasts where these are available, e.g. treasury management, interest rates,
- Maintaining a rolling review of forecast estimates beyond the current year.

9.14 These assumptions are made with all available information but are necessarily calculated based on some broad criteria. In the current economic climate, some of these assumptions are particularly volatile. The MTFP will be prepared annually on a rolling basis so that as information becomes more certain the figures will be updated and consideration can be given to any action or changes in direction that may be required.

9.15 Section 17 below sets out the Chief Finance Officer's statutory report on the robustness of the estimates and adequacy of reserves.

Parish Precepts

9.16 The levels of parish precepts set throughout Fenland are provided for information at Appendix F. These will be reported to Council as part of the Council Tax setting process.

9.17 As part of the Fenland CSR process, Cabinet agreed at its July 2016 meeting, to phase out the Local Council Tax Support Grant funding to Parish Councils by 2019/20, the year this Council's Revenue Support Grant (RSG) from government also ceases. This reduced the grant payments to Parish Councils from £89,260 in 2016/17 to £59,507 in 2017/18, £29,750 in 2018/19 and zero in 2019/20. The individual grant amounts have been notified to all Parish Councils and have been taken into account by them when setting their individual precepts for 2018/19.

10 FEES AND CHARGES 2018/19

10.1 The Overview and Scrutiny Panel reviewed fees and charges at their meeting on 15 January 2018. The recommended changes to fees and charges were reported to Cabinet on 18 January 2018. All of these recommendations have been included in the financial forecasts.

11 SPECIAL AND GENERAL EXPENSES

11.1 For the purposes of Section 35 of the Local Government Finance Act 1992, the Council needs to pass appropriate resolutions for each financial year to determine how expenses which could legally be regarded as special should be treated.

11.2 If expenses are treated as special expenses, then they must be charged against the parts of the Council's area to which they relate.

11.3 Parish precepts are special expenses and cannot be treated as general expenses.

11.4 Drainage Board and Port Health levies which affect only part of the Council's area are treated as general expenses unless the Council resolves otherwise. These are currently treated as general expenses and it is recommended that this position continues for 2018/19.

11.5 Expenses incurred by the Council in performing, in part of its area, a function performed elsewhere by a parish council are special expenses unless the Council determines otherwise. Currently, these are treated as general expenses. To maintain this position, it is recommended that the Council determines that such expenses should not be treated as special expenses for the financial year 2018/19.

12 PORT HEALTH

12.1 The Port Health levy for 2018/19, based on expected expenditure, is recommended as shown in Table 3 below.

Table 3: Port Health Levy 2018/19

	Description	£
a)	Port Health anticipated expenditure	14,245
b)	Port Levy Fenland District Council South Holland District Council King's Lynn and West Norfolk Borough Council	 12,607 997 641
	Total	14,245

13 CAPITAL PROGRAMME

13.1 Capital Expenditure and Income plans have been prepared through the Council's service and financial planning cycle. The Council's capital resources are dependent on government funding, external grants or through the ongoing disposal of assets.

13.2 A fully updated Capital Programme for 2018-21 is presented at Appendix D for approval. All known and expected levels of capital receipts have been taken into account in the resources statement. These include the net usable receipt from the stock transfer and income from land sales. This includes significant amounts from the future disposal of land at Nene Waterfront and other sites in the district.

13.3 The level of these capital receipts can be subject to some potential variability and risk. Officers are working on a variety of options to bring vacant sites to the market but there remains considerable uncertainty as to when these will be realised and capital receipts have been re-profiled accordingly. Even after this re-profiling the Council is still reliant on realising capital receipts of £1.216 million between now and 2021 to fund the programme at Appendix D.

13.4 A number of high priority schemes have now been included in the programme for the maintenance and improvement of the Council's assets (eg. car parks, open spaces, leisure centres, cemeteries, office buildings, street lighting, Wisbech Port) as detailed in the Asset Management Plan 2017-20 approved by Council on 15 December 2016. Total value of these schemes is £1.7m over the next two years.

13.5 As a result of including these high priority schemes, Appendix D shows a net financing need of £1.172m by the end of 2018/19; £977k in 2019/20 and £130k in 2020/21. This funding deficit (after applying capital receipts and grants received) will be met by borrowing and the relevant annual financing cost has been included in the MTFP.

13.6 Should resources from external funding and/or capital receipts not generate the level of receipts forecast, or there is a delay in disposal of assets, then the capital programme will need re-visiting to ensure funding is sufficient to meet proposed expenditure. Reviews of the programme and resources available are carried out regularly during the year.

13.7 The Local Government Act 2003 introduced a new Prudential Borrowing regime. This requires all Councils to set and monitor indicators relating to capital expenditure, external debt and impact on council tax. The recommended indicators for Fenland District Council from 2018/19 are included in the Treasury Management Strategy detailed below and in Appendix E.

14 TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2018/19

14.1 Full details of the proposed Treasury Management and Annual Investment Strategy for 2018/19 are contained in Appendix E. The proposed strategy was presented to and endorsed by Corporate Governance Committee on 7 February 2018.

14.2 The key issues relating to this strategy and its impact on the Medium Term Financial Plan are as follows:

- Continuing compliance with CIPFA's Treasury Management Code of Practice and the CLG's Investment Guidance;
- The Prudential and Treasury indicators detailed in paragraphs 2 – 10 of Appendix D, show that the Council's capital investment plans are affordable, prudent and sustainable;
- The MRP policy sets out how the Council will make prudent provision for the repayment of borrowing needs over the medium term forecast;
- The Treasury Management Strategy has been organised so that the Council will have sufficient cash resources to meet capital expenditure plans and operational cash flows;
- Total external interest which includes finance lease interest payments; revised estimate for 2017/18 is £512,365. The estimate for 2018/19 is £507,885;
- Base rate is expected to remain unchanged at 0.50% until Quarter 4 2018 before increasing gradually to reach 1.25% by 2020/21;
- At the current time, no opportunities exist to repay or reschedule the Council's external debt (total £7.5m) due to the premiums that would become payable on redeeming external debt early. For example, the Council's long term PWLB debt (£4.5m at 31/03/18) is currently attracting excessive premiums (£3.3m);
- The Council complies with all statutory requirements in relation to its' external debt portfolio. However, the Council does not technically comply with the CIPFA Code prudential indicator for gross borrowing and capital financing, which fails to take into account the specific circumstances relating to the timing of the Housing Stock Transfer and the impact of interest rates on the repayment of debt since then;
- The aim of the Council's annual investment strategy is to provide security of investment whilst minimising risk; investment returns are commensurate with the Council's low risk appetite. The Council achieves these objectives through differentiating between "specified" and "non-specified" investments and through the application of a creditworthiness policy;
- Total investment income is estimated at £110,000 for 2017/18 and £140,000 for 2018/19;
- Revisions (in December 2017) to the Treasury Management Code of Practice and Prudential Code with full implementation in 2019/20.

15 REVIEW OF GENERAL FUND BALANCE AND SPECIFIC RESERVES

15.1 An important part of any budget strategy is the review and consideration of reserves. Earmarked Reserves are typically held and used in a planned way to deal with issues where it is foreseen that resources need to be set aside to meet a specific need. General Reserves are held to cushion the impact of an event or events that cannot be foreseen whilst maintaining these resources at a consistent and reasonable level over the medium term.

15.2 Sufficient levels of reserves are necessary to provide for various contingent and unplanned items that could include:

- significant increased costs of providing statutory services
- significant increased contractual costs
- an unexpected and/or significant event or disaster, e.g. civil emergency
- an unexpected major liability in law
- the need to make significant payments in relation to prior year adjustments under the direction of the external auditor

15.3 The Council's current forecast uncommitted General Fund Balance at 31 March 2018 is £2.422m and has been consistently around this level for a number of years. It is expected that this level of Balances will be maintained over the length of the MTFS.

15.4 A full analysis of earmarked reserves is shown at Appendix G and they have been reviewed to enable the Council to meet potential future costs of transformation and other foreseen potential future liabilities.

16 COUNCIL TAX – OVERALL LEVELS 2018/19

16.1 After the estimates of expenditure and income have been prepared, and the external sources of grant have been notified from the Government, the next step is to set the level of council tax for 2018/19 for Fenland District Council's share of services. This is the final piece of the "jigsaw" that provides the balance of the resources required to fund the Council's services.

16.2 When considering the level of Council Tax to be set for 2018/19 it is prudent to be mindful of the projected budget shortfalls expected over the period of the medium term – 2018/19 to 2022/23 as set out in Table 2 in paragraph 9.2 above. In order to meet the objectives and guidelines set out in the MTFP and based on the assumptions shown at Appendix B, the following council tax levels are the most robust assumptions based on current information available:

YEAR	INCREASE FOR MTFP PURPOSES
• 2018/19	2.96%
• 2019/20 – 2022/23	1.98% per annum

16.3 It is expected that these increases together with the achievement of the identified efficiency savings, would provide the resources required to fund the current level of service provision in 2018/19. Over the period of the MTFP, the Council will need to consider its' strategy to meet the estimated shortfalls shown at Table 2 and in Appendix B.

16.4 For the reasons set out above Members are invited to reflect on the financial merits of choosing a 2.96% increase in Council Tax for 2018/19 and the implications for the Medium Term Financial Plan should an increase of less than 2.96% be preferred. If Members decide on a 2.96% increase that would be an important step in helping to secure the best financial position for the Council in the medium term.

16.5 However, to be clear, Members need to be aware that although the MTFP has been modelled on a 2.96% Council Tax rise for 2018/19 (reflecting levels of inflation currently observed) the assumption used for the ensuing years is that a 1.98% increase will apply in each year thereafter. This reflects the Budget assumptions approved by Council in February 2017.

16.6 Council can of course agree to a lower increase but a 1% rise in Council Tax brings in around £75,000 per annum to the Council. This being so, if a 1.98% rise is agreed the MTFP figures in Table 2 / Appendix B will be, on average around £75,000 worse in each year than the figures currently appearing. The adjusted 'bottom line' associated with these possible Council Tax increases is shown in Table 4 below:

Table 4: MTFP Shortfall at Differing Council Tax increases in 2018/19

Financial Year	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Shortfalls based on different % increases in 2018/19 and 1.98% thereafter					
Shortfalls at +3% increase (Actual 2.96%) *(as shown in Table 2 / Appendix B)*	Balanced	+223	+447	+440	+586
Shortfalls at +2% increase (Actual 1.97%)	+73	+298	+524	+520	+668
Shortfalls at 0% increase	+219	+448	+679	+679	+833

16.7 Members may wish to understand the impact that increases at the various levels add to the amount payable by each household. The figures below apply to a Band B property, as in Fenland around 84% of properties are in Bands A-C.

- An increase of 2% (1.97%) adds £3.92 per annum to a Band B bill or 7.5p per week
- An increase of 3% (2.96%) adds £5.88 per annum to a Band B bill or 11.3p per week

16.8 This Council's Band D Council Tax for 2018/19 is proposed at £262.98, an increase of £7.56 (2.96%) per Band D household on the current year. However, for the majority of properties in the district the increase will be proportionately less (although the percentage increase will be the same). Table 5 below shows the proposed Council Tax levels for each property band and the relevant increase were 2.96% to be agreed.

Table 5: Proposed FDC Council Tax levels 2018/19 (2.96% increase) by Property Band

Property Band	Proportion to Band D	% of Properties	Current 2017/18 Council Tax £	Proposed 2018/19 Council Tax 2.96% increase £	Increase per annum £	Increase per week pence
A	6/9	37.38	170.28	175.32	5.04	9.7p
B	7/9	27.19	198.66	204.54	5.88	11.3p
C	8/9	19.04	227.04	233.76	6.72	12.9p
D	**9/9**	**9.96**	**255.42**	**262.98**	**7.56**	**14.5p**
E	11/9	4.76	312.18	321.42	9.24	17.8p
F	13/9	1.29	368.94	379.86	10.92	21.0p
G	15/9	0.35	425.70	438.30	12.60	24.2p
H	18/9	0.03	510.84	525.96	15.12	29.1p

16.9 Table 6 shows the Band D Council Tax for spending at the level proposed, together with Council Tax levels from the major preceptors and Parishes.

Table 6: Band D Council Tax Levels 2018/19

COUNCIL TAX BASE	**2018/19** *28,979*		**2017/18** *28,397*	
	£	**Band D £**	**£**	**Band D £**
Fenland District Council Precept (Appendix A)	7,620,761		7,253,302	
Fenland District Band D Council Tax	***2.96%***	**262.98**	***1.98%***	**255.42**
MAJOR PRECEPTORS				
County Council	***(4.99%)***	1,249.83		1,190.43
Police & Crime Commissioner	***(6.41%)***	198.72		186.75
Fire Authority	***(2.96%)***	68.76		66.78
Sub Total BAND D TAX		1,780.29		1,699.38
Parish Councils-average (Appendix F)	***(5.86%)***	46.97		44.37
Total average Band D Tax		1,827.26		1,743.75
Total average increase over 2017/18	**£83.51 (4.79%)**			

16.10 The County Council increase for 2018/19 includes 2% for the Adult Social Care precept (£23.81) and 2.99% on the general council tax (£35.59), giving a total increase of 4.99% (£59.40).

17 STATUTORY OFFICER COMMENTS

17.1 Under Section 25 of the Local Government Act 2003 and CIPFA Code of Practice, the Council's Chief Finance Officer (Section 151 Officer) is required to report on the robustness of the estimates made for the purpose of the budget calculations and the adequacy of the proposed reserves.

Members are required under the 2003 Act to have regard to the Chief Finance Officer's report when making decisions about the budget calculations.

17.2 **The Corporate Director and Chief Finance Officer (Section 151 Officer) has made the following statement:**

The robustness of the Budget estimates and the adequacy of the reserves are largely dependent on the levels of risk and uncertainty. The principal financial assumptions made in the Budget are noted in this report and attached appendices. Budget monitoring throughout the year will be an important tool in identifying, at an early stage, potential problems so appropriate action can be taken.

The delivery of the planned savings and major business projects is critical to the successful delivery of the Council's budget strategy. Current activity provides adequate assurance as to the deliverability of the 2018/19 budget with future year projections representing realistic planning assumptions which will be subject to review as part of the annual budget setting process.

The Budget has been prepared reflecting known service pressures and following thorough review by Service Managers of planned savings.

A risk based approach to consideration of the level of reserves is a component of the Council's overall risk management framework. Operational risks should be managed within Services' bottom line budgets and thus will not normally result in a call on the Council's General Balances, as detailed in Section 15 above.

My assessment of the process that has been undertaken is that the calculations used in the preparation of the estimates for the Budget for 2018/19 are fair and robust and that reserves are adequate to reflect known circumstances.

APPENDIX A(i)

FENLAND DISTRICT COUNCIL

Summary of Revenue Estimates

Service Summary	**Approved Estimate 2017/18 £**	**Revised Estimate 2017/18 £**	**Estimate 2018/19 £**
Growth & Infrastructure	1,323,505	1,402,955	1,294,835
Housing, Environment, Leisure & Community	3,861,220	3,756,210	4,407,360
Resources & Customer Services	6,192,275	6,139,646	6,280,610
Planning, Policy & Governance	1,884,010	1,847,510	1,681,310
NET COST OF GENERAL FUND SERVICES	**13,261,010**	**13,146,321**	**13,664,115**
Corporate Items			
Contributions to/ (from) Earmarked Reserves	544,940	608,670	-13,360
RTB/VAT Sharing Income	-160,000	-210,000	-60,000
Financing Charges - *Interest/Minimum Revenue Provision*	742,568	727,016	681,415
Financing Charges - *New Capital Programme*	0	0	85,000
Savings from Prepayment of Pension Lump Sum	0	0	-32,000
Investment Income	-110,000	-110,000	-140,000
New Homes Bonus	-1,649,138	-1,649,138	-1,426,180
New Homes Bonus Adjustment	-8,175	-8,175	0
Transition Grant	-1,580	-1,580	0
Council tax Support - *Payments to Parish Councils*	59,510	59,510	30,000
Contingency Items			
Transport Development Team	0	0	15,000
Economic Development Service	0	0	43,000
Capitalisation of PNPF Liability	0	0	100,000
Corporate Adjustments	**-581,875**	**-583,697**	**-717,125**
Net Expenditure before savings	**12,679,135**	**12,562,624**	**12,946,990**
CSR Savings identified not yet implemented			***-218,000***
Net Expenditure after Savings	**12,679,135**	**12,562,624**	**12,728,990**
Core Funding			
Revenue Support Grant	**-924,958**	**-924,958**	**-443,802**
Business Rates Baseline Funding	**-3,457,064**	**-3,457,064**	**-3,560,925**
Business Rates - net additional income above baseline ***(government grants for reimbursement of reliefs, growth less levy payment)***	**-1,003,963**	**-1,137,452**	**-1,162,184**
Council Tax Collection Fund Surplus(-)	**-140,900**	**-140,900**	**-110,000**
Business Rates Collection Fund Deficit(+)	**101,052**	**101,052**	**168,682**
Council Tax	**-7,253,302**	**-7,253,302**	**-7,620,761**
Surplus(-)/Shortfall(+)	**0**	**-250,000**	**0**

APPENDIX A(ii)

GROWTH AND INFRASTRUCTURE			
Service	**2017/18 Current Approved Estimate £**	**2017/18 Projected Outturn £**	**2018/19 Original Estimate £**
Direct Services			
Marine Services	26,550	87,150	-105,300
Drainage (District)	3,000	3,000	3,000
Highways	141,690	141,690	167,750
Car Parks	183,050	183,050	179,750
Sewage Treatment Works	22,300	22,300	20,800
Parish Council Concurrent Functions	41,395	41,395	41,395
Miscellaneous (Clocks, Monuments)	6,100	6,100	3,300
Economic Estates	-90,620	-64,120	-157,850
Planning Policy	128,100	123,450	109,700
Transport Development	116,000	116,000	118,500
Economic Development	133,450	130,450	132,650
HLF- High St Wisbech	-150,810	-150,810	32,640
Total Direct Services	560,205	639,655	546,335
Support Services			
Asset & Project Services	395,800	395,800	398,150
Fenland Hall	289,450	289,450	291,800
The Base	118,050	118,050	98,550
Total Support Services	803,300	803,300	788,500
Net Cost of Services	**1,363,505**	**1,442,955**	**1,334,835**
Less Support Services Recharges to Capital Schemes	-40,000	-40,000	-40,000
TOTAL GROWTH AND INFRASTRUCTURE	**1,323,505**	**1,402,955**	**1,294,835**

Notes:

1. Within all the Service Estimates detailed in Appendix A(ii), Support Services costs have not been reallocated with the exception of recharges to Capital Schemes.

2. Similarly, Capital Charges have not been reallocated as these 'costs' are reversed out within the Corporate Items section of the estimates, thereby having no impact on the Budget Requirement and Council Tax.

3. Estimates for 2018/19 include the assumptions on pay, expenditure and income detailed at Appendix C.

HOUSING, ENVIRONMENT, LEISURE & COMMUNITY			
Service	**2017/18 Current Approved Estimate £**	**2017/18 Projected Outturn £**	**2018/19 Original Estimate £**
Direct Services			
Housing Strategy	109,740	115,740	121,210
Private Sector Renewals	101,600	101,600	103,110
Housing Standards	21,770	21,770	21,970
Care & Repair	28,410	28,410	28,540
CCTV	111,970	111,970	91,970
Safer Fenland	80,750	80,750	97,550
Licensing	59,050	63,570	-250
Housing Options	-46,630	-116,360	185,940
Controlling Migration	-158,480	-158,480	-10,550
Community Development	109,090	109,090	107,380
Community House	2,240	2,240	4,430
Travellers Services	-81,930	-81,930	-87,160
Pollution Reduction	110,200	110,200	123,010
Public Health	271,570	272,330	259,730
Food Safety	96,640	96,640	132,060
Health and Safety	48,560	48,240	69,740
Refuse Collection - Domestic	1,092,900	1,092,820	1,193,500
Garden Waste	-178,780	-286,000	-125,100
Refuse Collection - Trade Waste	-111,690	-113,990	-105,190
Street Cleansing	764,180	766,440	786,390
Streetscene	252,970	252,440	235,100
Public Conveniences	25,100	25,100	25,600
Arts Development & Culture	79,570	79,570	10,330
Tourism Development	33,680	33,680	33,700
Leisure Centres	345,660	407,020	392,060
Sports Development	59,590	59,590	77,680
Parks and Open Spaces	465,120	465,120	465,290
Cemeteries	6,250	6,250	4,500
Markets and Fairs	10,390	10,660	3,310
Community Events	104,570	104,570	119,840
Vehicle Workshop	47,160	47,160	41,670
TOTAL HOUSING, ENVIRONMENT, LEISURE& COMMUNITY	**3,861,220**	**3,756,210**	**4,407,360**

PLANNING, RESOURCES AND CUSTOMER SERVICES			
Service	**2017/18 Current Approved Estimate £**	**2017/18 Projected Outturn £**	**2018/19 Original Estimate £**
Direct Services			
Miscellaneous Central Services	248,540	248,540	240,540
Drainage Board Levies	1,411,890	1,411,890	1,454,260
Unfunded Pension Costs	948,000	948,000	930,200
Corporate Management	670,205	676,125	621,410
Council Tax Cost of Collection	38,160	33,570	4,390
Business Rates Cost of Collection	-24,020	-24,020	3,140
Housing Benefits	89,690	89,690	173,050
ICT Direct Service Costs	611,640	574,490	607,760
Emergency Planning	64,250	64,250	63,200
Total Direct Services	4,058,355	4,022,535	4,097,950
Support Services			
Accountancy	520,250	520,250	541,660
Information & Communication Technology	375,370	375,370	382,900
Customer Access	920,250	915,410	925,750
Corporate Health & Safety	3,300	3,300	1,650
Human Resources	314,750	314,750	330,700
Total Support Services	2,133,920	2,129,080	2,182,660
TOTAL RESOURCES AND CUSTOMER SERVICES	**6,192,275**	**6,151,615**	**6,280,610**

PLANNING, POLICY AND GOVERNANCE			
Service	**2017/18 Current Approved Estimate £**	**2017/18 Projected Outturn £**	**2018/19 Original Estimate £**
Direct Services			
Development Management	75,440	75,440	-182,120
Building Control	60,000	60,000	60,000
Conservation	40,650	40,650	38,950
Planning Compliance	115,860	115,860	80,970
Technical Support	171,810	171,810	178,490
Policy	215,600	215,600	215,200
Land Charges	-68,450	-68,450	-72,390
Elections & Electoral Registration	153,430	153,430	206,800
Democratic Services	541,100	541,100	565,310
Total Direct Services	1,305,440	1,305,440	1,091,210
Support Services			
Post & Reprographics	234,100	234,100	235,150
Internal Audit	88,600	88,600	91,900
Legal Services	255,870	219,370	263,050
Total Support Services	578,570	542,070	590,100
TOTAL PLANNING, POLICY AND GOVERNANCE	**1,884,010**	**1,847,510**	**1,681,310**

APPENDIX B(i)

Medium Term Financial Plan

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Expenditure					
Service Expenditure					
Gross Service Expenditure	23,607	23,530	23,798	24,252	24,719
Fees and Charges	-7,790	-7,872	-7,931	-8,010	-8,083
Grants and Contributions	-2,153	-1,492	-1,404	-1,384	-1,368
Total Net Service Expenditure	***13,664***	***14,166***	***14,463***	***14,858***	***15,268***
Corporate Items					
Corporate Expenditure/Savings					
Council Tax Support Grant - Parish Councils	30	0	0	0	0
Financing Charges - Interest/MRP	681	745	745	745	745
Financing Costs - Capital Programme	85	85	85	85	85
Savings from Prepayment of Pension Lump Sum	-32	-34	-35	-35	-35
A14 Upgrade - contribution	0	0	32	32	32
CSR Savings identified but not yet implemented	-218	-540	-565	-565	-565
Contingencies					
Transport Development Team - additional staff resources	15	15	15	15	15
Economic Development Strategy - enhanced service	43	43	43	43	43
Financing Costs - Capitalisation of PNPF Liability	100	100	100	100	100
Trienniel Pension Fund Valuation	0	0	75	75	75
	704	*414*	*495*	*495*	*495*
Corporate Income Items					
RTB/VAT Sharing Income	-60	-40	-10	-10	-10
Investment Income	-140	-175	-230	-210	-200
New Homes Bonus	-1,426	-1,379	-1,200	-1,280	-1,200
Contribution to(+)/from(-) Reserves	-13	-45	75	75	75
	-1,639	*-1,639*	*-1,365*	*-1,425*	*-1,335*
Total Corporate Items	***-935***	***-1,225***	***-870***	***-930***	***-840***
Gross Service/Corporate Expenditure	**24,311**	**23,944**	**24,293**	**24,747**	**25,214**
Gross Service/Corporate Income	**-11,582**	**-11,003**	**-10,700**	**-10,819**	**-10,786**
Net Budget Requirement	**12,729**	**12,941**	**13,593**	**13,928**	**14,428**
Funding - RSG/NNDR/CT					
Revenue Support Grant	-444	0	0	0	0
Retained Business Rates	-4,723	-4,776	-4,966	-5,065	-5,168
Business Rates Collection Fund Deficit	169	0	0	0	0
Council Tax Collection Fund Surplus	-110	-90	-90	-90	-90
Council Tax *(increases of 2.96% in 18/19 and 1.98% p.a 19/20 onwards)*	-7,621	-7,852	-8,090	-8,333	-8,584
Total Funding - RSG/NNDR/CT	**-12,729**	**-12,718**	**-13,146**	**-13,488**	**-13,842**
Surplus(-)/Shortfall(+)	**0**	**+223**	**+447**	**+440**	**+586**

Summary

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Total Gross Expenditure	**24,311**	**23,944**	**24,293**	**24,747**	**25,214**
Funded by:					
Fees and Charges	-7,790	-7,872	-7,931	-8,010	-8,083
Grants and Contributions	-2,153	-1,492	-1,404	-1,384	-1,368
New Homes Bonus	-1,426	-1,379	-1,200	-1,280	-1,200
Other - Investment Income, VAT/RTB, Reserves	-213	-260	-165	-145	-135
Revenue Support Grant	-444	0	0	0	0
Retained Business Rates	-4,554	-4,776	-4,966	-5,065	-5,168
Council Tax	-7,731	-7,942	-8,180	-8,423	-8,674
Total Funding	**-24,311**	**-23,721**	**-23,846**	**-24,307**	**-24,628**
Surplus(-)/Shortfall(+)	**0**	**+223**	**+447**	**+440**	**+586**

APPENDIX B(ii)

Medium Term Financial Plan - Movements since last update

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Notes
Shortfall - December 2017 Cabinet Interim Budget Report	**119**	**377**	**682**	**642**	**747**	As per Cabinet report 14.12.17
Additional resources required to meet cost of proposed pay award	60	120	120	120	120	Total increase 2.5% p.a. 2018/19 & 2019/20 (2% previously allowed)
Revenue savings from final payment to Pilots' Pension Fund	-89	-92	-95	-99	-102	Annual Deficit Contribution not required
Service Expenditure and Income variations	-28	-42	-46	-46	-33	Review of expenditure and income estimates based on projected 17/18
Net additional income from Fees & Charges review	-7	-7	-7	-7	-7	Increase in Pre-Application Planning Advice fees
Housing Benefits - Reduced Subsidy Admin Grant	14	35	40	40	30	
Other Grants	-5	-2	-1	0	1	
Reduction in Capital Programme Borrowing Costs	-15	-15	-15	-15	-15	Reduce to £85k p.a. Now funding £1.7m of AMP Priority Schemes
Finance Leases - MRP/Interest Payable	-50	-15	-15	-15	-15	Revised Vehicle replacement programme
Business Rates - Net impact of Finance Settlement & NNDR1 18/19	-44	-96	-80	-61	-56	Higher Business Rates income off-set by higher levy
Adjustment to New Homes Bonus	-30	-30	-30	-30	0	Further proposed changes to methodology not implemented
Investment Income	0	-32	-87	-67	-60	Revised cash flow and interest rate forecasts
CSR Projects - Relocating Shops	22	-12	-50	-50	-50	Lower savings in 2018/19; Higher savings in future years
Lower Pension contributions	-32	-34	-35	-35	-35	Prepayment of Lump Sum contributions
Council Tax - Single Person Discount review	0	-15	-15	-15	-15	Higher Council Tax-base
Move to 2.96% Council Tax increase (from 1.98%) for 2018/19 only	-73	-75	-77	-80	-82	2.96% in 2018/19 (1.98% allowed for in Interim Budget Report)
	-158	**65**	**289**	**282**	**428**	
Movements in Contingent Items:						
Transport Development Team - proposed additional Staff resources	15	15	15	15	15	Net of additional grant funding
Economic Development Strategy - proposed enhanced service	43	43	43	43	43	
Borrowing costs of Capitalisation of PNPF liability	100	100	100	100	100	£1.9m capitalised over 20 years
Updated Position - February 2018	**0**	**223**	**447**	**440**	**586**	

APPENDIX C

Assumptions built into Budget and Medium Term Forecasts

Within the forecasts are a number of assumptions which are necessary to produce the overall budget strategy. However, there is an element of risk associated with this process although we aim to mitigate these risks as detailed in paragraph 9.15 of the main report.

The main assumptions are as follows:

- 2.96% Council Tax increase for 2018/19 and 1.98% p.a. thereafter;
- 2.05% increase in Council Tax base in 2018/19 and 1.00% thereafter;
- 2% pay award per annum for 2018/19 and thereafter;
- Allowance for pay increments;
- Implementation of the increase to the National Living Wage from April 2017;
- Forecast increase in Employer's Pension Contributions (as determined by the latest triennial valuation of the Cambridgeshire Pension Fund in 2016). The current years' contribution takes the form of a percentage of pay (17.4%) together with a lump sum payment of £785,000. For 2018/19 and 2019/20, the percentage of pay remains at 17.4% with the lump sum payments increasing to £825,000 and £865,000 respectively. For 2020/21 onwards, following the next triennial valuation, a further 0.2% increase in the percentage paid has been assumed;
- Inclusion of the Apprenticeship Levy from April 2017 at an annual cost of around £33,000;
- Inclusion of a vacancy factor in 2018/19, equivalent to a reduction in staff costs of 0.75% (£94,000 in 2018/19);
- 0% general inflation for the period of the Medium Term Forecasts;
- Specific allowance for inflation for business rates, external contracts, energy and water, drainage board levies;
- Investment interest rates to stay at current rates until fourth quarter of 2018 when market rates are forecast to begin rising slowly;
- Continuing impact of 2017/18 in year income pressures;
- Assumptions regarding forecast income levels from fees and charges have been included. These are a combination of fee increases (where applicable) and review of activity levels;
- The New Homes Bonus for 2018/19 onwards has been included as detailed in paragraph 7.4 of the report;

APPENDIX D

CAPITAL PROGRAMME AND FUNDING 2018- 2021

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
CURRENT FORECAST EXPENDITURE	**2,251**	**3,145**	**2,236**	**1,195**	**8,827**
CAPITAL FUNDING					
External Funding					
Capital Grants	1,071	980	973	950	**3,974**
Section 106's	38	0	0	0	**38**
FDC Funding					
Usable Capital Receipts - In Year	513	413	175	115	**1,216**
Usable Capital Receipts - B/fwd	39	0	0	0	**39**
Reserves used in year to fund Capital	590	580	111	0	**1,281**
Borrowing	0	1,172	977	130	**2,279**
Total Forecast Funding	**2,251**	**3,145**	**2,236**	**1,195**	**8,827**

CAPITAL PROGRAMME SUMMARY 2018 - 2021

		2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106	
Leisure Centres										
1	Energy Plan - RE:FIT	27				**27**	27			
2	Essential Buildings Safety Improvements	6				**6**	6			
3	Condition Survey Improvements		150	32		**182**	182		£182k R&M Reserve	New Scheme
Regeneration Programmes										
4	Fenland Renaissance and Place Shaping	30				**30**	30			
5	Heritage Lottery Fund - Match Funding bid		50	100		**150**	150			
6	Heritage Lottery Fund - 24 High Street, Wisbech	20	160	29		**209**	209		£50k Conservation Reserve	£60k New Scheme
Cemeteries										
7	Rebuild Front Wall - Manea Churchyard		15			**15**	15			New Scheme
Parks and Open Spaces										
8	Wisbech Park, Bandstand	9				**9**	0	9	£9k Section 106	
9	West End Park - Replace Skate Park Ramps		120			**120**	90	30	£30k WREN	New Scheme
10	Wisbech Park - Resite Zip Wire, Multi Play Module			40		**40**	40			New Scheme
11	Refurbish Wall The Pound, Whittlesey			20		**20**	20			New Scheme
Car Parks										
12	March & Wisbech - Surfacing, Drainage & Landscaping		200	150		**350**	350			New Scheme
Highways										
13	Street Light Improvements - FDC (Cat 1 & 2)	100	213	260		**573**	573		£47k Invest to Save Reserve	£473k New Scheme
14	Street Light Improvements - Parishes (Cat 1 & 2)	12	151			**163**	163		£163k Capital Reserve	
15	Street Light Improvements - Wimblington Road, March	10				**10**	10		£10k Capital Reserve	
16	Street Name Plates/District Facilities Signage	24				**24**	24			
Port										
17	Mooring & Fuelling Facilities, Sutton Bridge	134				**134**	134			
18	Suspended Quay - Structural Repairs/Fender Piles		35	100		**135**	135			New Scheme
19	Boats/Vessels - Replacement Deck, Hull & Engines		42	30		**72**	72			New Scheme
20	Replacement and Renewal of Navigation Aids		53			**53**	53			New Scheme
Vehicles and Plant										
21	Vehicles	334	343	170	170	**1,017**	1,017			
Office Accommodation										
22	Fenland Hall - Passenger Lift Replacement		22			**22**	22			New Scheme
23	The Base - CCTV		20			**20**	20			New Scheme
Sub -Total		**706**	**1,574**	**931**	**170**	**3,381**	3,342	39		

CAPITAL PROGRAMME SUMMARY 2018 - 2021

	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**Total Cost £000**	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106	
B/FWD	**706**	**1,574**	**931**	**170**	**3,381**	3,342	39		
ICT System Replacement Programme & Upgrades									
24 Replacement & Upgrade Programme	108	75	75	75	**333**	333		£2k Travellers Sites Reserve	
Improvement of Assets									
25 Sewage Treatment Works Refurbishment	18	292			**310**	310			£292k New Scheme
26 Energy Plan - Invest to Save Projects	18				**18**	18			
27 Eastwood Chatteris - Car Park Improvements		65			**65**	65			New Scheme
28 Lattersey Nature Reserve - Capping Layer			40		**40**	40			New Scheme
29 March SWMP - Eastwood Cemetery Flood Prevention			70		**70**	47	23	£23k Grants/Levy	New Scheme
Economic Estates									
30 Mini-Factories Refurbishment	40				**40**	40			
31 Longhill, March - Drainage		40			**40**	40			New Scheme
32 Station Road, Whittlesey - Carriageway Resurfacing			40		**40**	40		£12k Station Rd Reserve	New Scheme
Community Fund									
33 March Athletics Club		8			**8**	8			
34 Estover Playing Field Sports Provision, March		100			**100**	100		£100k Management of Change Reserve	
Rural Community Fund									
35 Coates Athletic Football Club - Changing Facilities		14			**14**	14			
36 Friday Bridge Play/Skate Park & MUGA	50	27			**77**	77			
Community Safety									
37 Wireless CCTV/Alarm Receiving Centre	211				**211**	211		£211k Management of Change Reserve	
38 Wenny Road Chatteris CCTV	29				**29**	0	29	£29k Section 106	
39 Control,Recording & Matrix Replacement Analogue to Digital			110		**110**	110			New Scheme
40 Camera Replacements			20		**20**	20		£20k CCTV Reserve	New Scheme
Private Sector Housing Support									
41 Private Sector Renewal Grants	40	40	40	40	**160**		160	£160k Govt Grant	
42 Disabled Facilities Grants	1,031	910	910	910	**3,761**		3,761	£3.761m Govt Grant	
Total Forecast Expenditure	**2,251**	**3,145**	**2,236**	**1,195**	**8,827**	4,815	4,012		

APPENDIX E

Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2018/19

1 Introduction

1.1 The Council is required to operate a balance budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and pursuit of optimum performance consistent with those risks."

1.4 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by Corporate Governance Committee and Cabinet before being recommended to the Council.

1.5 **Prudential and Treasury Indicators and Treasury Strategy** (this report), the first and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

A Mid-Year Treasury Management Report - This will update Members with the progress of the capital position, amending prudential indicators as necessary and whether any policies require revision.

An Annual Treasury Report - This provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.6 The Strategy covers two main areas:

Capital issues;

- the capital plans and the prudential indicators;
- the MRP policy.

Treasury management issues;

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

1.7 In December 2017 CIPFA issued a revised Treasury Management Code of Practice and Prudential Code. These revisions have particularly focused on:

- non-treasury investments and especially on the purchase of property with a view to generating income, with treasury teams not having the specialist skills in such areas;
- as from 2019/20 all local authorities will be required to prepare an additional Capital Strategy report. The strategy is intended to provide a high level overview of how capital expenditure, capital financing and treasury management activity contribute towards the provision of service. How the associated risk is managed and the implications for future financial sustainability;
- the treasury management role of the Chief Financial Officer has been extended to include a series of new roles in respect of the capital strategy and also a specific role in respect of investment in non-financial assets.

1.8 The aim of the Capital Strategy report is to ensure that all elected members on the Council will fully understand the overall strategy, governance procedures and risk appetite. The report will include capital expenditure, investments, liabilities and treasury management in sufficient detail to allow members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

2 Capital Prudential Indicators 2018/19 to 2020/21

2.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

2.2 The capital expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. The table below summarises the capital expenditure plans and how these are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Programme	2017/18 Revised Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Forecast Capital Expenditure	**2,251**	**3,145**	**2,236**	**1,195**
Financed by:				
Capital Receipts	552	413	175	115
Capital Grants	1,071	980	973	950
Capital Reserves	590	580	111	0
Section 106 Contributions	38	0	0	0
Total Financing	**2,251**	**1,973**	**1,259**	**1,065**
Net Financing Need For The Year (Borrowing)	**0**	**1,172**	**977**	**130**

2.3 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure shown above, which has not immediately been paid for will increase the CFR.

2.4 The CFR does not increase indefinitely, as each year the Council is required to pay off an element of the capital spend (including finance leases) through a statutory revenue charge (MRP). This has the effect of reducing the Council's (CFR) broadly over the assets life.

2.5 The CFR includes any other long term liabilities (finance leases). A finance lease is a commercial arrangement between the Council and a lessor (finance company), where in consideration for a series of payments the Council has the right to use an asset (e.g. refuse vehicle, leisure equipment) for the lease duration (typically 3 to 7 years). The annual lease payment is made up of a capital and interest repayment.

2.6 Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan. Whilst this increases the CFR, the nature of the finance lease agreement doesn't require the Council to separately borrow to fund the asset.

Capital Financing Requirement	2017/18 Revised Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
CFR at 1 April	**981**	**766**	**1,786**	**2,560**
Movement in CFR	**(215)**	**1,020**	**774**	**(119)**
Net financing need for the year	0	1,172	977	130
Less MRP	(215)	(152)	(203)	(249)
Movement in CFR	**(215)**	**1,020**	**774**	**(119)**

3 Minimum Revenue Provision (MRP) Policy Statement

3.1 The Council is required to pay off an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision).

3.2 CLG regulations have been issued which require the Council to approve an MRP statement in advance each year. A variety of options are provided to Councils, so long as there is a prudent provision. For all unsupported borrowing (including finance leases) the MRP policy will be the asset life method - MRP will be based on the estimated useful life of the assets, in accordance with regulations. This option provides for a reduction in the borrowing need over approximately the asset's life. Repayments included in finance leases are applied as MRP.

4 The Use of Council's Resources and the Investment Position

4.1 The application of resources (capital receipts, reserves etc) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc). Detailed below are estimates of the year end balances for each resource.

Year End Resources	2017/18 Revised Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Fund balances / reserves	**(10,190)**	**(9,600)**	**(9,500)**	**(9,400)**
Capital receipts	**0**	**0**	**0**	**0**
Capital Grants Unapplied	**(44)**	**(44)**	**(44)**	**(44)**
Total core funds	**(10,234)**	**(9,644)**	**(9,544)**	**(9,444)**
Expected investments	**(19,000)**	**(18,000)**	**(17,000)**	**(17,000)**

5 Affordability Prudential Indicators

5.1 The previous sections cover the overall capital and control of borrowing prudential indicators; also within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator.

5.2 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Financing Costs to Net Revenue Stream	2017/18 Revised Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	**3.17**	**2.92**	**2.63**	**2.09**

The estimates of financing costs include current commitments and the proposals in the budget.

6 Treasury Management Strategy

6.1 The capital expenditure plans set out in section 2 provide a summary of future level of spend. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Council's capital strategy. This will involve both the organisation of cash flow and where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

6.2 The Council's expected treasury portfolio position at 31 March 2018, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR).

	2017/18 Revised Estimate £000	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**
Debt at 1 April	**7,800**	**7,800**	**7,800**	**7,800**
Expected change in debt	**0**	**0**	**0**	**0**
Other long term liabilities (OLTL)	**930**	**715**	**563**	**407**
Expected change in OLTL	**(215)**	**(152)**	**(156)**	**(163)**
Actual debt at 31 March	**8,515**	**8,363**	**8,207**	**8,044**
Capital financing requirement (CFR) at 31 March	**766**	**1,786**	**2,560**	**2,441**
Borrowing less CFR – 31 March	**7,749**	**6,577**	**5,647**	**5,603**

6.3 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years and ensures that long term borrowing is not undertaken for revenue purposes.

6.4 As a result of the Council's long term Public Works Loan Board (PWLB) debt portfolio of £4.5m (31/03/18) currently attracting excessive premiums (£3.08m at the time of writing this report), if it were prematurely repaid and the Lender Option Borrower Option (LOBO) debt of £3.3m (31/03/2018), attracting a premium charge on application to prematurely repay, it is not financially advantageous for the Council to fully comply with this prudential indicator. This has been the case since the housing stock transfer in 2007 and has been acknowledged and approved by Council since then. In addition, the Council's external auditors have also acknowledged this situation and have not raised any issues with our strategy.

6.5 Interest repayments associated with the external debt (including finance leases) above are shown below.

YEARS	**INTEREST DUE £**
2017/18	512,365
2018/19	507,885
2019/20	502,595
2020/21	497,125

6.6 The operational boundary is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt.

Operational Boundary	**2017/18 Revised Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**
Debt	**10,000**	**10,000**	**10,000**	**10,000**
Other long term liabilities	**2,000**	**2,000**	**2,000**	**2,000**
Total	**12,000**	**12,000**	**12,000**	**12,000**

6.7 The authorised limit is a key prudential indicator, which represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term but is not sustainable in the longer term.

6.8 This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all council's plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the following authorised limit.

Authorised limit	**2017/18 Revised Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**
Debt	**15,000**	**15,000**	**15,000**	**15,000**
Other long term liabilities	**2,000**	**2,000**	**2,000**	**2,000**
Total	**17,000**	**17,000**	**17,000**	**17,000**

7 Prospects for Interest Rates

7.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link Asset Services central view.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

7.2 The Monetary Policy Committee, (MPC) delivered a 0.25% increase in bank rate at its meeting on 2 November 2017. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase bank rate only twice more to 1.00% by 2020. The Link Asset Services forecast as above includes increases in bank rate of 0.25% in November 2018, November 2019 and August 2020.

7.3 After the UK surprised on the upside with strong economic growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

7.4 Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

7.5 The key issue now is that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets.

7.6 One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that some consumers may have over extended their borrowing and have become complacent about interest rates going up after bank rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in bank rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of bank rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

7.7 While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out. The UK will continue as a full EU member until March 2019, with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during a two year transitional period, which will start after March 2019. Over this two year period the UK and EU will attempt to negotiate a bi-lateral trade agreement.

7.8 Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and +0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

7.9 In addition, inflation prospects are generally muted and it is particularly notable that wage inflation has been subdued despite unemployment falling to historically very low levels in the UK and US. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak.). This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action.

8 Borrowing Strategy

8.1 The Council will not borrow more than or in advance of its needs purely in order to profit from investment of the extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

8.2 As a result of the Council's decision not to repay debt of £7.8m at the time of the housing stock transfer in 2007, the Council is currently over borrowed (see paragraph 6.4 above), the Council's gross debt exceeds its CFR over the term of the treasury strategy.

8.3 New borrowing is not currently required to support future capital plans (the CFR), as these can be met from internal borrowing as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still a consideration. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

8.4 The Chief Finance Officer will monitor capital plans and interest rates in financial markets and adopt a pragmatic approach to funding the capital programme. Any borrowing decisions and budget consequences would be reported to Cabinet at the earliest opportunity.

8.5 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing the risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

Interest rate exposures	2018/19 Upper £000	2019/20 Upper £000	2020/21 Upper £000
Limits on fixed interest rates based on net debt	**(14,000)**	**(14,000)**	**(14,000)**
Limits on variable interest rates based on net debt	**(10,200)**	**(10,200)**	**(10,200)**
Limits on fixed interest rates:			
• **Debt only**	**10,000**	**10,000**	**10,000**
• **Investments only**	**(24,000)**	**(24,000)**	**(24,000)**
Limits on variable interest rates:			
• **Debt only**	**3,300**	**3,300**	**3,300**
• **Investments only**	**(13,500)**	**(13,500)**	**(13,500)**

Maturity structure of fixed interest rate borrowing 2018/19	Lower %	Upper %
Under 12 months	**0**	**20**
12 months to 2 years	**0**	**50**
2 years to 5 years	**0**	**75**
5 years to 10 years	**0**	**75**
10 years and above	**0**	**100**

Maturity structure of variable interest rate borrowing 2018/19	Lower %	Upper %
Under 12 months	**0**	**100**
12 months to 2 years	**0**	**100**
2 years to 5 years	**0**	**100**
5 years to 10 years	**0**	**100**
10 years and above	**0**	**100**

9 Debt Rescheduling / Repayment

9.1 The Council has sufficient cash balances set aside to pay off its external debt.

9.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio by flattening the maturity profile.

9.3 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to switch debt to generate savings. However, the penalty position which would arise from early redemption of the external debt would need to be considered.

9.4 The Council's debt rescheduling position will be monitored throughout 2018/19.

10 Annual Investment Strategy

10.1 The Council's investment policy has regard to the Communities and Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes 2017 ("the CIPFA TM Code"). The intention of the strategy is to provide security and minimise risk. The Council's investment priorities are:

- the security of capital;
- the liquidity of its investments;
- return on its investments.

10.2 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings

10.3 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

10.4 Investment instruments identified for use in the financial year are listed below under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

10.5 **Specified Investments –** These investments are sterling investments (meeting the minimum 'high' quality criteria where applicable) of not more than one year maturity, or those which could be for a longer period but where the Council has the right to repay within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. Investment instruments identified for use in the financial year are as follows:

- term deposits with part nationalised banks and local authorities;
- term deposits with high credit criteria deposit takers (banks and building societies);
- callable deposits with part nationalised banks and local authorities
- callable deposits with high credit criteria deposit takers (banks and building societies);
- money market funds
- Debt Management Agency Deposit Facility (DMADF);
- UK Government gilts, custodial arrangement required prior to purchase.

10.6 **Non-Specified Investments –** These are any other type of investment (i.e. not defined as specified above). Investment instruments identified in both "specified" and "non-specified" categories are differentiated by maturity date and classed as non-specified when the investment period and right to be repaid exceeds one year. Investment instruments identified for use in the financial year are as follows:

- term deposits with high credit criteria deposit takers (banks and building societies);
- term deposits with part nationalised banks and local authorities;
- callable deposits with part nationalised banks and local authorities

- callable deposits with high credit criteria deposit takers (banks and building societies);
- Debt Management Agency Deposit Facility (DMADF);
- UK Government gilts, custodial arrangement required prior to purchase.
- Property funds.

10.7 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Bank rate is forecast to remain unchanged at 0.50% before starting to rise from quarter 4 of 2018. Bank rate forecasts for financial year ends (March) are:

- 2018/19 - 0.75%
- 2019/20 - 1.00%
- 2020/21 - 1.25%

10.8 The overall balance of risks to these forecasts is currently probably skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively . Forecast average investment interest rates for the next three years are as follows:

- 2018/19 - 0.59%
- 2019/20 - 0.78%
- 2020/21 - 1.07%

10.9 Estimated investment income is shown below.

YEARS	INTEREST RECEIVED £
2017/18	110,000
2018/19	140,000
2019/20	175,000
2020/21	230,000

10.10 **Investment treasury indicator and limit –** total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year end.

	2018/19 £000	2019/20 £000	2020/21 £000
Maximum principal sums invested > 365 days	**10,000**	**10,000**	**10,000**

10.11 For its cash flow generated balances, the Council will seek to utilise its call accounts and short dated deposits (overnight to 100 days) in order to benefit from the compounding interest.

10.12 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

11 Creditworthiness Policy

11.1 The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

11.2 The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system, which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- yellow 5 years;
- dark pink 5 years for ultra-short dated bond funds with a credit score of 1.25;
- light pink 5 years for ultra-short dated bonds funds with a credit score of 1.5;
- purple 2 years;
- blue 1 year (only applies to nationalised or semi nationalised UK banks);
- orange 1 year;
- red 6 months;
- green 100 days
- no colour not to be used.

11.3 The Link Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

11.4 Typically the minimum credit ratings criteria the Council will use will be short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use

11.5 The Council's own bank currently meets the creditworthiness policy. However, should they fall below Link Asset Services creditworthiness policy the Council will retain the bank on its counterparty list for transactional purposes, though would restrict cash balances to a minimum.

11.6 All credit ratings are monitored weekly and prior to any new investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swaps against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

11.7 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to justify its decision making process.

11.8 To further mitigate risk the Council has decided that where counterparties form part of a larger group, group limits should be used in addition to single institutional limits. Group limits will be as set through the Council's Treasury Management Practices – schedules.

11.9 The Council currently only invests in UK banks as it lacks detailed knowledge about investments in other sovereign rated countries. It should be noted that in some cases these banks are subsidiaries of foreign banks but these are of the highest credit quality.

12 External Service Providers

12.1 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the authority at all times and will ensure that undue reliance is not placed upon our external service providers.

12.2 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

APPENDIX F

PARISH PRECEPTS 2018/19

TAX BASE (Equated Band D Properties)	PRECEPT 2017/18 £	COUNCIL TAX PER BAND D PROPERTY £	PARISH	TAX BASE (Equated Band D Properties)	PRECEPT 2018/19 £	COUNCIL TAX PER BAND D PROPERTY £	INCREASE FROM 2017/18 %
339	10,715	31.61	**BENWICK**	349	11,037	31.62	0.1
3,228	137,000	42.44	**CHATTERIS**	3,292	151,000	45.87	8.1
255	13,200	51.76	**CHRISTCHURCH**	265	14,250	53.77	3.9
778	46,500	59.77	**DODDINGTON**	796	47,895	60.17	0.7
1,138	52,936	46.52	**ELM**	1,161	67,646	58.27	25.3
373	15,000	40.21	**GOREFIELD**	383	16,000	41.78	3.9
1,071	50,000	46.69	**LEVERINGTON**	1,098	51,000	46.45	-0.5
766	66,010	86.17	**MANEA**	779	47,487	60.96	-29.3
6,411	267,000	41.65	**MARCH**	6,484	270,000	41.64	0.0
230	10,500	45.65	**NEWTON IN THE ISLE**	234	13,000	55.56	21.7
419	18,565	44.31	**PARSON DROVE**	433	18,876	43.59	-1.6
376	21,000	55.85	**TYDD ST GILES**	383	1,000	2.61	-95.3
5,015	171,015	34.10	**WHITTLESEY**	5,154	171,015	33.18	-2.7
753	61,450	81.61	**WIMBLINGTON**	756	62,986	83.31	2.1
6,149	265,374	43.16	**WISBECH**	6,294	364,237	57.87	34.1
1,096	53,732	49.03	**WISBECH ST MARY**	1,118	53,732	48.06	-2.0
28,397	**1,259,997**	**44.37**	**GRAND TOTAL**	**28,979**	**1,361,161**	**46.97**	**5.86**

APPENDIX G

EARMARKED AND GENERAL RESERVES - Revised 2017/2018 and Estimated 2018/19

Reserve Name	**Balance 01.04.17** £	Capital Funding £	Revenue Contributions to(+)/from(-) 2017/18 £	**Revised Balance 31.03.18** £	Capital Funding £	Revenue Contributions to(+)/from(-) 2018/19 £	**Estimated Balance 31.03.19** £	*Comments / Conditions of Use*
Travellers Sites	**256,674**	-2,000	59,930	**314,604**		62,060	**376,664**	Can only be used for specific future maintenance liabilities.
Station Road, Whittlesey - Maintenance	**5,600**		2,800	**8,400**		2,800	**11,200**	Required for future road maintenance.
CCTV - Plant & Equipment	**98,780**		5,750	**104,530**		10,000	**114,530**	Available for future CCTV maintenance & replacement liabilities.
Invest to Save	**120,521**			**120,521**			**120,521**	To provide resources for schemes which will deliver future efficiencies. £50k committed to energy efficiency schemes match funded by Salix Finance, as part of the Council's 'Keen to be Green' strategy.
Conservation	**54,124**			**54,124**	-50,000		**4,124**	Available for the purchase, renovation and subsequent re-selling of difficult properties of local importance where intervention by this Council is seen as the only solution.
Management of Change	**1,196,650**	-211,000	-59,500	**926,150**	-100,000		**826,150**	Available for the effective management of any organisational changes required to meet the Council's future priorities.
Neighbourhood Planning Reserve	**195,156**		-10,000	**185,156**			**185,156**	Available to assist the Council with delivering the 'Neighbourhood Planning' objective and delivery of the Core Strategy.
Specific Government Grants (received in previous years)	**641,282**		458,880	**1,100,162**		-55,580	**1,044,582**	Available to fund specific spending commitments in future years.
Personal Search Fees	**115,524**			**115,524**			**115,524**	Available to off-set restitution claims associated with the revocation of the personal search fees of the local land charges register.
Community Projects Reserve	**12,431**			**12,431**			**12,431**	Available for small-scale community projects. Previously used to assist Parish/Town Councils to fund Diamond Jubilee Celebrations.
Local Government Resources Review Reserve	**500,000**			**500,000**			**500,000**	Available to assist the Council in delivering the local council tax support scheme and business rates retention system from 2013/14.
Capital Contribution Reserve	**656,647**	-377,000		**279,647**	-280,000		**-353**	Available to fund specific spending commitments in future years.
Port - Bouy Maintenance	**149,431**			**149,431**			**149,431**	Available for future buoy maintenance to service windfarms.
Pilots' National Pension Fund	**2,351,178**			**2,351,178**			**2,351,178**	Available to off-set liabilities arising from Pilots'membership of the Pilots' National Pension Fund.
Repairs and Maintenance	**400,000**			**400,000**	-150,000		**250,000**	Available to provide funding for one-off schemes, not covered by the normal Repairs and Maintenance revenue budgets.
Property Development Fund	**1,000,000**			**1,000,000**			**1,000,000**	Available to enable progression of future development and property scemes.
Heritage Lottery Fund (HLF) - Wisbech	**0**		150,810	**150,810**		-32,640	**118,170**	To manage the Heriatge Lottery Funded scheme in Wisbech.
TOTAL EARMARKED RESERVES	**7,753,997**	-590,000	608,670	**7,772,667**	-580,000	-13,360	**7,179,307**	
General Fund Balance	**2,421,631**			**2,421,631**			**2,421,631**	Unallocated general reserve required for various and unplanned for contingencies, to mitigate risks associated with future financial planning as well as for general day to day cash flow needs.
TOTAL RESERVES	**10,175,629**	-590,000	608,670	**10,194,299**	-580,000	-13,360	**9,600,939**	

NB: In accordance with the Council's Financial Rules and Scheme of Financial Delegation (Part 4, Rule 6 of the Constitution), paragraphs B57 - B60 delegates authority to the Chief Finance Officer to approve expenditure from these reserves in accordance with their approved use as detailed above.